

**UINTAH HEALTH CARE
SPECIAL SERVICE DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

**UINTAH HEALTH CARE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UINTAH COUNTY)
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FOR THE YEAR ENDED DECEMBER 31, 2005**

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INDEPENDENT AUDITORS' REPORT

Administrative Control Board
Uintah Health Care
Special Service District
Vernal, Utah 84078

We have audited the accompanying financial statements of the business-type activities of Uintah Health Care Special Service District (a component unit of Uintah County), as of and for the year ended December 31, 2005, as listed in the financial section of the table of contents. These financial statements are the responsibility of the Uintah Health Care Special Service District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Uintah Health Care Special Service District, as of December 31, 2005, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2006, on our consideration of Uintah Health Care Special Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the financial section of the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Uintah Health Care Special Service District's basic financial statements. The accompanying financial information listed as supporting schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written in dark ink.

Price, Utah

June 10, 2006

**UINTAH HEALTH CARE SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UINTAH COUNTY)
DBA UINTAH CARE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Our discussion and analysis of Uintah Health Care Special Service District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2005. All of the financial activity results from "business-type" activities.

FINANCIAL HIGHLIGHTS

- ❖ Total Revenues from business activities increased to \$4,425,140 in 2005 from \$4,018,503 in 2004. An increase of 10.11% in business revenue. (The increase in revenue is a result of being near capacity during the year and an increase in Medicaid/Medicare reimbursement rates.)
- ❖ Total business expenses increased to \$4,593,250 in 2005 up from \$4,420,126 in 2004. An increase of 3.91%. (Increases in expenses were mainly due to increased salaries and benefits.)
- ❖ Non-operational revenues and equipment asset transfers from Uintah County to the district were as follows:
 - a. Cash transfers to support operations totaled \$216,000 in 2005, as compared to \$216,000 in 2004 and \$290,000 in 2003. (Note: The Service District pays building rent to the County. The difference between the County cash transfers and rent is the net burden to the County funds or taxpayers. Thus: 2005: \$216,000 less \$216,000 (rent) equals no net cash support.)
 - b. Equipment assets transferred to the District from the County totaled \$37,395 in 2005, \$123,232 in 2004 and transfers in 2003 totaled, \$109,172. The 2005 equipment transferred from the County was needed and necessary for the operations of the Care Center. Most of these assets were less than the capitalization amount of the District (\$5,000), therefore, the equipment that is valued less than the \$5,000 threshold has been recorded as current year expenses. The 2004 transfers were mostly equipment and the 2003 amount was part of the remodel and addition to the nursing home.
 - c. Interest earned in 2005 totaled \$6,915 as compared to \$1,291 in 2004 and \$864 in 2003. The increase in earnings was due to an increase in average cash balances and an increase in interest rates.
 - d. Net assets during 2005 increased by \$43,670 (after the reduction from the prior period adjustment) as compared to a decrease of (\$70,899) in 2004 and (\$133,645) decrease in 2003. Change in net assets is detailed in Net Asset Report of the District's Key Financial Reports (page 5).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The financial reports; Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows, comprise pages (10-13). Standard and acceptable accounting practices are followed in preparation of these reports. The cost accounting formats used are those recommended in the Federal Medicare and Medicaid rules for health care facilities. The purpose of the financial reports is to identify Revenues and Expenses resulting from business activities. The net income or (loss) from operations, adjusted for depreciation, identifies the need for financial support for operations from Uintah County. Certain key financial ratios taken from the Statement of Net Assets help identify financial strength and liquidity. Since the District is operated as an enterprise fund, there are no fund statements presented because all operations of the District are reported using the accrual method of accounting.

REPORTING THE DISTRICT BUSINESS OPERATIONS

Our analysis of the District as a whole begins on page 10. The key financial reports, prepared by an independent auditing firm provide the accounting from which various reports herein are created. The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Fund Assets summarize the District's business operations for the year and provide a basis for assessing financial strengths and weaknesses. From these reports trends are monitored and budgets are prepared for future months. These reports are prepared using the accrual accounting method, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or payment made. (Note: The detailed Auditor's Report is available for review at the Uintah Care Center office of the administrator.)

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets, the District shows all of the activities in one fund.

- ❖ Business-type activities – The District charges patients for their individual care and other services that are provided. The charges cover most of the cost of services associated with providing the care. Uintah County subsidizes the operations by making available funds if losses occur and by providing funds for capital improvements.

REPORTING THE DISTRICT'S SIGNIFICANT FUND

The District has only one fund, which accounts for the activity of the District. The entity-wide financial statements, which begin on page 10, provide detailed information about the operations of the District as a whole. The District's only fund is operated as an enterprise fund. Enterprise funds are reported using an accrual accounting method, which records expenses when they are incurred and records revenues when they are earned. The District does not have any governmental type funds.

THE DISTRICT AS A TRUSTEE

The District does not hold any funds or property in a trustee capacity.

THE DISTRICT'S KEY FINANCIAL REPORTS

NET ASSET REPORT

	BUSINESS- TYPE ACTIVITIES 2003	BUSINESS- TYPE ACTIVITIES 2004	BUSINESS- TYPE ACTIVITIES 2005
ASSETS			
Current and other assets	\$ 790,775	\$ 916,628	\$ 704,803
Capital assets	199,296	196,964	178,182
Total assets	<u>\$ 990,071</u>	<u>\$ 1,113,592</u>	<u>\$ 882,985</u>
LIABILITIES			
Current liabilities	<u>\$ 435,433</u>	<u>\$ 629,853</u>	<u>\$ 355,576</u>
Total liabilities	<u>\$ 435,433</u>	<u>\$ 629,853</u>	<u>\$ 355,576</u>
NET ASSETS			
Invested in Capital Assets, net of debt	\$ 199,296	\$ 196,964	\$ 178,182
Unrestricted	355,342	286,775	349,227
Total net assets	<u>\$ 554,638</u>	<u>\$ 483,739</u>	<u>\$ 527,409</u>

Net Assets of the District are \$ 527,409. *Unrestricted* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – is \$ 349,227. These net assets are used to finance the continuing operations of providing services to the care facility.

During 2005 the District has tried to operate within the parameters of the Care Center's revenues and expenditures and not rely upon outside sources. The current year has reflected these operational goals, by the increase in the District's Net Assets. The Board of Directors and management feel that the facility is achieving some of their objectives and will continue to progress closer to their other goals. The increase of \$43,670 is a significant change from the reduction of \$70,899 in the previous year (2004) and the \$133,645 reduction during 2003 in District Net Assets.

A key financial ratio - the Current Ratio - is calculated by dividing current assets by current liabilities. This ratio is an indicator of liquidity and ability to pay current operational bills. The ratio for the year ending 2005 is 1.98. The industry average is approximately 1.1 to 1.5. The ratio for the year ending 2004 was 1.46. The District's ratio indicates a strong liquidity position.

CHANGES IN NET ASSETS

	BUSINESS- TYPE ACTIVITIES 2003	BUSINESS- TYPE ACTIVITIES 2004	BUSINESS- TYPE ACTIVITIES 2005
REVENUES			
Program Revenues:			
Charges for services	\$ 3,366,490	\$ 4,018,503	\$ 4,425,140
Capital grants and contributions	290,000	216,000	216,000
General Revenues:			
Grants and contributions - not restricted	109,172	123,232	37,395
Other general revenues	864	1,291	6,915
Total revenues	<u>\$ 3,766,526</u>	<u>\$ 4,359,026</u>	<u>\$ 4,685,450</u>
EXPENSES			
Program Expenses:			
Salaries and fringe	\$ 2,312,705	\$ 2,883,726	\$ 3,033,463
Management and consulting	235,698	295,502	292,443
Materials and supplies	517,794	569,204	655,410
Utilities and telephone	127,573	150,941	157,847
Insurance	77,361	87,433	74,864
Depreciation	21,850	33,045	36,091
Repairs and maintenance	43,391	46,653	30,896
Rent	216,000	216,000	216,000
Other	173,355	154,745	97,563
Total expenses	<u>\$ 3,725,727</u>	<u>\$ 4,437,249</u>	<u>\$ 4,594,577</u>
Prior period adjustment	<u>\$ (174,444)</u>	<u>\$ 7,324</u>	<u>\$ (47,203)</u>
Change in net assets	<u>\$ (133,645)</u>	<u>\$ (70,899)</u>	<u>\$ 43,670</u>
Net assets - beginning	\$ 688,283	\$ 554,638	\$ 483,739
Net assets - ending	<u>554,638</u>	<u>483,739</u>	<u>527,409</u>
	<u>\$ (133,645)</u>	<u>\$ (70,899)</u>	<u>\$ 43,670</u>

The operational goal for future years is to continue to strive to decrease the amount of revenue required from the County, by increasing business profitability.

CASH SOURCES AND USES

Beginning cash balance as of January 1, 2004	\$ 176,437
Change in net assets:	\$ 43,670
Depreciation (source of cash)	36,091
Accounts receivable decrease (source of cash)	225,315
Inventory increase (use of cash)	(6,240)
Prepaid expenses decrease (source of cash)	23,281
Accounts payable decrease (use of cash)	(178,817)
Wages and payroll liabilities increase (source of cash)	2,344
Deferred revenue decrease (use of cash)	(97,804)
Capital asset acquisition/sales (use of cash)	(17,309)
Total change in net assets	\$ 30,531
Ending cash balance as of December 31, 2005	\$ 206,968

Use of all funds are controlled and authorized by the District's board of directors. The board of directors has delegated the day-to-day operations to a contracted management company who supervises and monitors the facility's licensed health care administrator. The administrator and management company follow the spending limits and budgets as approved by the board of directors. All major capital expenditures are approved by the board of directors. The board of directors approves an annual operational budget and forwards it to the County Commission. The District also submits copies of the budget to the State Auditor as required by Utah State law.

BUSINESS ACTIVITIES AND PURPOSES

Revenues for the District are generated, by providing long-term skilled nursing care at the Uintah Care Center. Several different payment sources reimburse the Care Center for the services provided. Funds come from Medicare, Medicaid, insurance companies, private individual's funds, and County contributions. The District is a non-profit entity and is required to provide a limited amount of charity or free care. The objective of the District is to reduce the need for County funds. As the new facility "fills" it is management's objective to become more operationally independent and require little if any cash support from the County.

DEBT MANAGEMENT

The board of directors has not authorized any debt beyond authorized county budget support of operational losses and asset acquisition. No loans, bonds or other debt was allowed during 2005.

BUDGETARY HIGHLIGHTS

The 2005 budget was adopted for the current year on December 9, 2004. Since the District operates as an enterprise fund, it is only required to comply with the budget on an entity wide basis. The original budget amount was \$4,775,061. After the auditor's adjustments, the actual expenditures amounted to \$4,594,577. The budget was under spent by \$180,484.

CAPITAL ASSETS

At the end of 2005, the District had net capital assets of \$178,182. A policy change and the implementation of expensing all equipment whose original cost (or fair market value if donated) is valued under \$5,000 was implemented in 2003. Future budgets have accounted for and anticipated the equipment capitalization expenditure. The budget for 2005 estimates, that \$38,000 will be used for capital expenditures. The following table shows the balance of assets reflected by the capitalization change.

	Capital Assets at Year-end (Net of Depreciation) 2003, 2004 and 2005		
	Business-Type Activities		
	2003	2004	2005
Building Improvements			\$ 12,801
Equipment	\$ 199,296	\$ 183,489	165,381
Work in progress		13,475	
Net capital assets	<u>\$ 199,296</u>	<u>\$ 196,964</u>	<u>\$ 178,182</u>

The District did have major additions that met the criteria for capitalization for the current year. The District capitalized purchased and donated equipment during the year in the amount of \$17,309. Additional expenditures are included in the 2006 budget for equipment purchases.

ECONOMIC FORECAST AND FUTURE BUDGET

During 2005 the Care Center had no major construction and was in full service operation. Census continues to increase with space available for Medicare patients to come and go without any waiting list. Medicare revenue has continued to increase as a result of this. Total census averaged 82 patients per day and our Medicare census averaged about 7 patients per day, which is an increase over the previous year. Revenues from business operations and County contributions for 2006 are budgeted at \$4,808,298. Expenses are budgeted at \$4,904,968. County support is budgeted at \$38,000 capital contributions and a rent subsidy of \$216,000. The budgeted loss estimated for 2006 is (\$96,670). Of that loss, depreciation makes up \$34,378, resulting in a net potential loss of (\$62,291). For the year 2005, we estimated a loss, but ended with a surplus. We are optimistic that 2006 will have a surplus, as was the case in 2005. The goal of the management and the board is not to be a cost burden to the County.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our community and customers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Administrator at 510 South 500 West, Vernal, Utah.

UINTAH HEALTH CARE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

CARE CENTER FACILITY

ASSETS

Current Assets:	
Cash	\$ 206,968
Accounts receivable	393,710
Less: Allowance for doubtful accounts	(16,976)
Inventory	96,341
Prepaid expenses	24,760
	<hr/>
Total current assets	\$ 704,803
	<hr/>
Noncurrent Assets:	
Capital Assets:	
Building Improvements	\$ 13,475
Equipment	271,225
Accumulated depreciation	(106,518)
	<hr/>
Total noncurrent assets	\$ 178,182
	<hr/>
Total assets	\$ 882,985
	<hr/>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable	\$ 145,095
Accrued wages payable	78,225
Payroll taxes payable	29,464
Compensated absences payable	102,792
	<hr/>
Total current liabilities	\$ 355,576
	<hr/>
Total liabilities	\$ 355,576
	<hr/>
Net Assets:	
Investment in capital assets, net of related debt	\$ 178,182
Unreserved	349,227
	<hr/>
Total net assets	\$ 527,409
	<hr/>
Total liabilities and net assets	\$ 882,985
	<hr/>

"The accompanying notes are an integral part of this statement."

UINTAH HEALTH CARE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

BUSINESS-TYPE ACTIVITY
ENTERPRISE FUND

CARE CENTER FACILITY

Operating Revenues:

Charges for services -

Medicaid	\$ 2,726,808
Medicare	1,635,509
Day care	8,723
Veterans Admin/Managed Care/Private pay	993,971
Less: Contractual adjustments	(964,807)
Miscellaneous	24,936

Total operating revenue	<u>\$ 4,425,140</u>
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Operating Expenses:

Salaries and benefits	\$ 3,033,463
Management services	139,320
Consultant and purchased services	153,123
Operating supplies	128,225
Medical supplies	97,854
Pharmacy costs	104,010
Recreation supplies	3,806
Bed assessment tax	169,449
Utilities	129,971
Telephone	27,876
Travel	4,572
Data processing	10,180
Insurance	74,864
Food costs	152,066
Depreciation	36,091
Building rent	216,000
Contributions	844

Sub-total operating expenses	<u>\$ 4,481,714</u>
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"The accompanying notes are an integral part of this statement."

**UINTAH HEALTH CARE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUNDS
	<u>CARE CENTER FACILITY</u>
Sub-total operating expenses (previous page)	\$ 4,481,714
Capital expenses (under threshold)	38,177
Postage and printing	2,826
Training and seminars	4,970
Repairs and maintenance	30,896
Fuel	2,450
Dues, subscriptions and license	11,717
Legal and accounting	14,104
Bank charges	2,502
Miscellaneous	3,894
Total operating expenses	<u>\$ 4,593,250</u>
Operating income/(loss)	<u>\$ (168,110)</u>
Non-operating revenues/(expenses):	
Interest income	\$ 6,915
Interest expense	(1,327)
County contribution	216,000
County contribution - equipment	37,395
Loss on disposal of fixed assets	
Total non-operating revenues/(expenses)	<u>\$ 258,983</u>
Change in net assets	\$ 90,873
Total net assets, January 1, 2005	483,739
Prior period adjustment (note 12)	(47,203)
Total net assets, December 31, 2005	<u>\$ 527,409</u>

"The accompanying notes are an integral part of this statement."

UINTAH HEALTH CARE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UINTAH COUNTY)
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Cash flows from operating activities:

Cash received from customers	\$ 4,552,651	
Cash payments to suppliers for goods and services	(1,685,472)	
Cash payments to employees for services	(3,031,119)	
	<hr/>	
Net cash provided (used) by operating activities		\$ (163,940)

Cash flows from capital and related financing activities:

Acquisition of capital assets	\$ (17,309)	
Interest/fees paid	(1,327)	
	<hr/>	
Net cash (used) for capital and related financing activities		(18,636)

Cash flows from investing activities:

Interest on investments received	\$ 6,915	
County contribution	253,395	
	<hr/>	
Net cash provided by investing activities		<hr/> 260,310

Net increase (decrease) in cash and cash equivalents	\$ 77,734
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Cash and cash equivalents at beginning of year	176,437
Prior period adjustment (note 12)	(47,203)
	<hr/>

Cash and cash equivalents at end of year	<hr/> \$ 206,968
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"The accompanying notes are an integral part of this statement."

**UINTAH HEALTH CARE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY
OPERATING ACTIVITIES:**

Operating income (loss)		\$ (168,110)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	\$ 36,091	
Change in assets and liabilities:		
Decrease in accounts receivable	225,315	
Increase in inventory	(6,240)	
Decrease in prepaid expenses	23,281	
Decrease in accounts payable	(178,817)	
Decrease in payroll taxes payable	(31,460)	
Increase in accrued wages payable	25,097	
Decrease in deferred revenue	(97,804)	
Increase in compensated absences	8,707	
	<hr/>	
Total adjustments		<hr/> 4,170
Net cash provided by operating activities		<hr/> \$ (163,940) <hr/>

"The accompanying notes are an integral part of this statement."

**UINTAH HEALTH CARE
SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UINTAH COUNTY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Uintah Health Care Special Service District, was created as a special service district by the Uintah County Commissioners pursuant to the terms and provisions of Utah Code Annotated, 1953, as amended, Utah Special Service District Act, Part 13, Chapter 2, Title 17A, on December 11, 2000. The District is controlled by an Administrative Control Board and is a component unit of Uintah County. The Board's authority is derived from the County Commissioners, who has ultimate responsibility for the District.

The Board consists of seven members, each of whom is a qualified elector of the District and who are appointed by the County Commissioners. The County Commissioners appoint members familiar with the needs of the District as follows: Two (2) members represent the health care industry; one (1) member represents the financial industry; one (1) member represents the business community; and three (3) members are citizens at large interested in geriatric care. All seven members serve four (4) year terms.

The primary purpose of the District is to oversee, administer and manage a County owned, long-term, residential health care and day care facility that is responsive to the needs of the residents, their families and the community at large, through a consistently high standard of customized, clinical care. The accounting policies of Uintah Health Care Special Service District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management's Discussion and Analysis (MD&A) providing an analysis of the District's overall financial position and results of operations.

This and other changes are reflected in the accompanying financial statements (including notes to financial statements).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity

All financial activities over which the District has oversight responsibility are included in this report. The basis for inclusion or exclusion of other entities in the District's financial statements was based on the criteria set forth in the Governmental Accounting Standards Board (GASB) pronouncements. The basic criteria for including an entity, a board, or an agency in this report is the existence and exercise of oversight responsibility; consideration has been given to financial interdependency, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters. According to the above criteria, no other entities have been included in the District's financial statements.

B. Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets, the statement of revenues, expenses and changes in fund net assets and the statements of cash flows. The District is considered a special-purpose government engaged only in business-type activities. It is classified as a proprietary fund type and operates as an enterprise fund.

Enterprise funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that its costs to providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges. The function of the District is to oversee, administer and manage a County owned, long-term, residential health care and day care facility that is responsive to the needs of the residents, their families and the community at large, through a consistently high standard of customized, clinical care. The financial statements of the District consist only of an enterprise fund and neither fiduciary funds nor component units that are fiduciary in nature are included.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Therefore, revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized in the period incurred, if measurable.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide or proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for business-type activities, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first then unrestricted resources, as they are needed.

Amounts reported as charges for services include all charges for all types of services charged to Medicaid, Medicare, Third party and private pay. Amount reported as County contribution consists of funds and new purchased equipment that has been given to the District and accounted for as a contribution from the County.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to patients for health care. Operating expenses for the District include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. **Capital Assets**

Capital assets, which include, equipment and furniture and fixtures are reported in the government-wide financial statements. Capital assets are defined by the District, as an asset with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The District has adopted a capitalization threshold of \$5,000. This has eliminated from the capital asset list many items and has also kept the reporting of the assets purchased more in line with Medicaid reimbursement guidelines.

Equipment and furniture and fixtures of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	2 – 10

E. **Budget and Budgetary Accounting**

The District follows the budgetary practices and procedures required by State law. These requirements are summarized as follows:

1. A formal budget is adopted by the District.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budget and Budgetary Accounting (Continued)

2. The budget is a complete financial plan that identifies all estimated revenues and all appropriations for expenditures for the year. In accordance with State law, all appropriations lapse at the end of the budget year; accordingly, no encumbrances are recorded. At its option, the District may permit its expenditure accounts to remain open for a period of 30 days after the close of its fiscal year for the payment of approved invoices for goods received or services rendered prior to the close of the fiscal year.
3. The District Treasurer prepares a tentative budget and submits it for review with the Administrative Control Board at the October meeting. The tentative budget shall be submitted for Board approval at the November meeting.
4. After approval by the Board, the District Clerk shall submit the budget to the Uintah County Commissioners.
5. The tentative budget is a public record and is available for public inspection for at least ten days prior to public hearings held to consider adoption of the budget.
6. Notice of the scheduled public hearings is published at least seven days prior to the meetings.
7. The District Clerk presents the tentatively adopted budget to the public in December at a public hearing. Members of the public may comment on the budget and recommend changes to the Administrative Control Board.
8. The Administrative Control Board considers the comments made by the public and makes final adjustments to the budget.
9. By December, the Administrative Control Board adopts the budget by resolution. A copy of the budget is certified by the Administrative Control Board Clerk and is filed with the State Auditor within 30 days of adoption. A certified copy of the budget is available for public inspection.
10. The budget may be amended to reflect changes in circumstances that occur during the year. Budgets may be increased by resolution of the Board at any time during the year.
11. Under the Code, the District's budget establishes maximum legal authorization for expenditures during the fiscal year. The District Clerk shall certify as appropriate that a claim has been pre-audited, documented, and approved by the Board, or the Treasurer, and does not over expend the appropriate departmental budget established by the Board. Expenditures are not to exceed the budget amounts, including revisions, except as allowed by the Code for certain events.

F. Deposits and Investments

Public funds held by Uintah Health Care Special Service District may be deposited or invested only in instruments listed below and meet objectives outlined by State statutes, including: (a) safety of principal, (b) need for liquidity and (c) yield on investment.

Qualified investments:

- 1) Negotiable or non-negotiable deposits of qualified depositories.
- 2) Repurchase agreements with qualified depositories or primary reporting dealers.
- 3) Commercial paper, which is rated P-a by Moodys Investment Services or A-a by Standard and Poors, Inc., having a remaining term to maturity of 180 days or less.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Deposits and Investments (Continued)

- 4) Banker's acceptances.
- 5) Other negotiable deposits of \$100,000 or more.
- 6) Obligations of the U.S. Treasury.
- 7) Obligations issued or guaranteed by some agencies or instrumentalities of the United States.
- 8) Tax anticipation and general obligation bonds of state and local governmental units.
- 9) Various other loans in accordance with Section 52-7-17 of the Utah Code Annotated 1953.

G. Cash and Cash Equivalents

For purposes of the statement of cash flows, Uintah Health Care Special Service District considers all highly liquid investments (including restricted assets) with a maturity of six months or less when purchased to be cash equivalents. All amounts reported on the balance sheet as cash would be considered cash equivalents.

H. Accounting Method

The full accrual method of accounting is being used. Under the accrual method of accounting, revenues are recognized when they are earned and expenses are recorded when they are incurred.

I. Inventories

Inventories of supplies in enterprise funds are valued at the lower of cost or replacement cost using the first-in-first-out (FIFO) method.

J. Accumulated Unpaid Vacation and Sick Leave (Compensated Absences)

The District has vacation and sick leave policies, which determine an employee's vacation and sick leave based on the length of time of employment. The district pays fifty percent of the sick leave according to age and years of service and one hundred percent of the vacation hours, if proper resignation notices are given by the employee. The amount carried in the financial statements consists of vacation and sick leave hours accrued at year-end, at the prevailing rate of pay.

2. ACCOUNTS RECEIVABLE

Accounts receivable include the accrued amounts for private pay, third party insurance, Medicare and Medicaid. For the year ended December 31, 2005, an allowance for doubtful accounts has been recorded on the books. The allowance amount for the current year has been decreased to reflect current year collections and those accounts that are considered delinquent.

3. BUDGET VARIANCE

During the year ended December 31, 2005, the District did not overspend their budget in the Enterprise Fund.

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Balance 12-31-04</u>	<u>Additions</u>	<u>Contributions & Adjustments</u>	<u>Balance 12-31-05</u>
Business-type activities:				
Capital assets not being depreciated:				
Work in progress	<u>\$ 13,475</u>	<u> </u>	<u>\$ (13,475)</u>	<u> </u>
Total capital assets not being depreciated	<u>\$ 13,475</u>	<u>\$...</u>	<u>\$ (13,475)</u>	<u>\$...</u>
Capital assets being depreciated:				
Building Improvements		\$ 13,475		\$ 13,475
Equipment	<u>\$ 253,916</u>	<u>17,309</u>	<u> </u>	<u>271,225</u>
Total capital assets being depreciated	<u>\$ 253,916</u>	<u>\$ 30,784</u>	<u>\$...</u>	<u>\$ 284,700</u>
Less accumulated depreciation for:				
Building Improvements		\$ 674		\$ 674
Equipment	<u>\$ 70,427</u>	<u>35,417</u>	<u> </u>	<u>105,844</u>
Total accumulated depreciation	<u>\$ 70,427</u>	<u>\$ 36,091</u>	<u>\$...</u>	<u>\$ 106,518</u>
Total capital assets, being depreciated, net	<u>\$ 183,489</u>	<u>\$ (5,307)</u>	<u>\$...</u>	<u>\$ 178,182</u>
Business-type activities capital assets, net	<u><u>\$ 196,964</u></u>	<u><u>\$ (5,307)</u></u>	<u><u>\$ (13,475)</u></u>	<u><u>\$ 178,182</u></u>

5. DEPOSITS AND INVESTMENTS

The District follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At December 31, 2005, the District's bank balance of cash on deposit was \$198,520 of this amount \$100,000 was insured.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

5. **DEPOSITS AND INVESTMENTS (Continued)**

As of December 31, 2005, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 25,990	\$ 25,990			
Total Investments	\$ 25,990	\$ 25,990	\$...	\$...	\$...

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The District also manages its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has not adopted a formal policy with regards to credit risk on investments but the District informally follows the policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

At December 31, 2005, the District had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			Unrated
		AAA	AA	A	
State of Utah Public Treasurer's Investment Fund	\$ 25,990				\$ 25,990
Total	\$ 25,990	\$...	\$...	\$...	\$ 25,990

5. **DEPOSITS AND INVESTMENTS (Continued)**

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. As of December 31, 2005, the Agency had \$25,990 invested in the Public Treasurer's Investment Fund and was held by them.

6. **INTERGOVERNMENTAL REVENUE**

The District receives contributions from Uintah County in the form of checks and from the purchase of equipment donated to the District. The revenue received is shown as non-operating revenues on the Statement of Revenues, Expenses and Changes in Retained Earnings.

7. **PENSION PLAN**

Local Governmental – Cost Sharing

Plan Description. Uintah Health Care Special Service District contributes to the Local Contributory Retirement System, Local Governmental Noncontributory Retirement System, which are all for cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement systems (Systems). Utah Retirement systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

7. PENSION PLAN (Continued)

Funding Policy. Plan members in the Local Governmental Noncontributory Retirement System, the District is required to contribute 11.090 % for January 2005 – June 2005 and 11.090 % for July 2005 – December 2005. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Uintah Health Care Special Service District's contributions to the Noncontributory Retirement System for the years ending December 31, 2005, 2004, and 2003 were \$184,978, \$156,607 and \$118,773 respectively. The contributions were equal to the required contributions for each year.

8. PREPAID EXPENSES

Uintah Health Care Special Service District purchased an insurance policy that covers an entire year. The District has elected to allocate the payment monthly, which requires the amount to be recorded as an asset in prepaid expenses and record an expense on a monthly basis.

9. CONTRIBUTED ASSET PURCHASES

Uintah Health Care Special Service District has received, from Uintah County, title to equipment, furniture and fixtures. These have been transferred to the District during the current year. The entire contribution has been recorded as non-operating revenue and those asset purchases that have been more than \$ 5,000 have been recorded as additions to capital assets on the balance sheet. All other items purchased less than the above amount have been recorded as current year operating expenditures in the financial statements.

10. FUNDING SOURCES

Uintah Health Care Special Service District shall operate on funds as provided by the Commissioners, obtained from general funds of the County, fund raisers, grants or other funding sources. The District has been granted funds from the County that correspond with their yearly lease payment made to the County for the rent of the building and property that are being used by the Uintah Health Care facility. Although funding is not a guaranteed set amount, the County is obligated to the financial security of the facility.

11. LEASE OF COUNTY PROPERTY

Uintah Health Care Special Service District has a lease agreement with Uintah County for the building and land located at 510 South 500 West in the City of Vernal, County of Uintah, State of Utah, known as the Uintah Care Center. The lease was for a two (2) year term, commencing on January 1, 2001, and terminating on December 31, 2003. The lease was renewable for an additional one-year period of time after the original contract. The contract was renewed in 2005 and the new lease amount in the contract was \$216,000 per year. The annual rent of \$216,000 is payable in semi-annual equal installments on June 1st and December 31st of each year.

12. **PRIOR PERIOD ADJUSTMENT**

Uintah Health Care Special Service District anticipated Medicaid funds in the previous year that never materialized. Instead of making a one-time payment for the Medicaid funds, Medicaid told the District that they would blend the additional payment in the rate increases in the future. These additional funds will be received in future reimbursements made by Medicaid. The total decrease to the retained earnings account was \$47,203.

**UINTAH HEALTH CARE SPECIAL SERVICE DISTRICT
(A COMPONENT UNIT OF UTAH COUNTY)
DETAIL STATEMENT OF REVENUES
YEAR ENDED DECEMBER 31, 2005**

	<u>PATIENT ROOM</u>	<u>ANCILLARY</u>	<u>MISCELLANEOUS</u>	<u>TOTAL</u>
OPERATING REVENUES:				
Medicaid -				
ICF	\$ 2,184,970			\$ 2,184,970
SNF	365,783			365,783
Supplies		\$ 176,055		176,055
Medicare -				
SNF	921,059			921,059
A - supplies		23,751		23,751
A - respiratory therapy		8,063		8,063
A - physical therapy		241,700		241,700
A - lab		16,169		16,169
A - pharmacy		113,069		113,069
A - IV therapy		7,857		7,857
A - speech therapy		26,370		26,370
A - occupational therapy		273,774		273,774
B - physical therapy		3,697		3,697
Day Care	8,723			8,723
Veterans administration	106,904	14,910		121,814
Managed Care		771		771
Private pay	833,389	37,997		871,386
Miscellaneous -				
Meals			\$ 2,726	2,726
Other			22,210	22,210
Total operating revenue	\$ 4,420,828	\$ 944,183	\$ 24,936	\$ 5,389,947
Contractual adjustments (increase(decrease))	\$ (66,506)	\$ (898,301)	\$...	\$ (964,807)
NET OPERATING REVENUE	\$ 4,354,322	\$ 45,882	\$ 24,936	\$ 4,425,140

UTAH HEALTH CARE SPECIAL SERVICE DISTRICT
 (A COMPONENT UNIT OF UTAH COUNTY)
 DETAIL STATEMENT OF EXPENSES
 YEAR ENDED DECEMBER 31, 2005

	ADMINISTRATIVE	PLANT OPERATIONS AND PROPERTY COSTS	DIETARY	LAUNDRY AND HOUSEKEEPING	NURSING AND DIRECT CARE	DAY CARE	ANCILLARY AND RECREATIONAL	TOTAL
OPERATING EXPENSES:								
Salaries and benefits	\$ 1,046,563	\$ 64,198	\$ 163,671	\$ 140,920	\$ 1,372,603	\$ 8,198	\$ 237,310	\$ 3,033,463
Management services	139,320							139,320
Consultant and purchased services	15,709	14,128	8,491		4,862		109,933	153,123
Operating supplies	9,689	3,008	22,802	43,167	48,026	184	1,349	128,225
Medical supplies							97,854	97,854
Pharmacy costs							104,010	104,010
Recreation supplies							3,806	3,806
Bed assessment tax	169,449							169,449
Utilities		129,971						129,971
Telephone	27,876							27,876
Travel	4,572							4,572
Data processing	10,180							10,180
Insurance		74,864						74,864
Food costs			152,066					152,066
Depreciation		36,091						36,091
Building rent		216,000						216,000
Contributions	844							844
Capital expenses (under threshold)		37,122			1,055			38,177
Postage and printing	2,826							2,826
Training and seminars	4,531				439			4,970
Repairs and maintenance		30,896						30,896
Building costs						17,196		17,196
Fuel		2,450						2,450
Dues, subscriptions and license	11,717							11,717
Legal and accounting	14,104							14,104
Bank charges	2,502							2,502
Miscellaneous					3,524		370	3,894
Total operating expenses	\$ 1,459,882	\$ 608,728	\$ 347,030	\$ 184,087	\$ 1,430,509	\$ 25,578	\$ 554,632	\$ 4,610,446
Less: Costs associated with Day Care	\$...	\$ (13,551)	\$...	\$ (3,645)	\$...	\$...	\$...	\$ (17,196)
NET EXPENSES	\$ 1,459,882	\$ 595,177	\$ 347,030	\$ 180,442	\$ 1,430,509	\$ 25,578	\$ 554,632	\$ 4,593,250

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Administrative Control Board
Uintah Health Care
Special Service District
Vernal, Utah 84078

RE: Report on Compliance and Other Matters
And on Internal Control Over Financial
Reporting Based on an Audit of Financial
Statements Performed in Accordance With
Government Auditing Standards

We have audited the financial statements of Uintah Health Care Special Service District as of and for the year ended December 31, 2005, and have issued our report thereon dated June 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

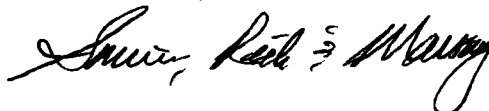
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written in dark ink.

Price, Utah

June 10, 2006

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Administrative Control Board
Uintah Health Care
Special Service District
Vernal, Utah 84078

Re: Report on Legal Compliance with
Applicable Utah State Laws and
Regulations

We have audited the accompanying financial statements of Uintah Health Care Special Service District for the year ended December 31, 2005, and have issued our report thereon dated June 10, 2006. Our audit included testwork on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt
Purchasing Requirements
Budgetary Compliance

Special Districts
Other General Issues
Cash Management

The District did not receive any major or non-major State grants during the year ended December 31, 2005.

The management of Uintah Health Care Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in a separate letter issued June 23, 2006. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Uintah Health Care Special Service District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

SMUIN, RICH & MARSING



Price, Utah

June 10, 2006

SMUIN, RICH & MARSING

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Members of the Administrative Control Board
Uintah Health Care Special Service District
Vernal, Utah 84078

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of Uintah Health Care Special Service District for the year ended December 31, 2005.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all-inclusive. We welcome the opportunity to discuss any items mentioned in this memorandum or any other accounting or procedural questions.

INTERNAL CONTROLS AND STATE COMPLIANCE ISSUES

Payroll Information and Documentation

The District's computer program is calculating accrued vacation and sick leave for eligible employees and then the information is being entered manually in a separate report. Upon testing the accuracy of both reports, several of the eligible employees figures were inaccurate. The report prepared by the District showed some employees with more carry over hours than what the District's policy allows. The District should provide accurate information about accrued vacation and sick leave to their employees. The information is also very valuable to management in making future financial decisions.

We recommend that the District review the reports generated by the computer and reconcile that information with their own report. The report should be corrected to reflect the District's policy and employees should be given the accurate accrued vacation and sick leave figures if they have changed.

Client Response

The District will review the information provided by our computer system and reconcile that information to the report generated by District personnel. An assigned employee will review this information more closely on a monthly basis. We will also inform all employees whose carry over figures have been changed after the corrections.

INTERNAL CONTROLS AND STATE COMPLIANCE ISSUES (Continued)

Minutes of Board Meetings

The District's minutes of board meetings do not contain enough detailed information for subsequent review of board action taken. Minutes of the board meetings should contain sufficient information that when read by others, who were not in attendance at the meeting, will understand what was presented, discussed and the action taken on the matter. Important information is addressed at board meetings and action is taken. If these events are not documented in the minutes of the board meetings, no evidence of the presentation, discussion or action taken may exist.

We recommend that the District personnel, involved in the recording of the board minutes, expand the written documentation of the information presented, discussed and actions taken to present accurate and full disclosure of matters brought before the board.

Client Response

The District understands the need to provide accurate information for matters that have been brought before the board. We will expand the minutes to contain adequate information on those items presented, discussed and actions taken..

Recording of donated items

The District has received several items during the year that were classified by the District as unrestricted donations. While the District is aware of all donations the fair value of the donations, are usually not a significant amount. One donation for the year, a piece of equipment, was valued at a significant amount and should have been recorded at the fair value in the financial statements. Although the District usually receives minimal dollar amounts (fair value) of items donated, an assessment or valuation of these items should be made and recorded in the financial statements, unless insignificant.

We recommend that the District have a regular review of donated items and determine the fair value of the items. If the fair value of the items is significant, this value should be recorded in the financial statements.

Client Response

The District will review those items that are donated and determine if the fair value of the items warrants a recording in the financial statements.

SUMMARY

We feel the Internal Controls and State of Utah Legal Compliance issue mentioned above are some areas where the District can make changes so as to further improve its internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING

A handwritten signature in cursive script that reads "Smuin, Rich & Marsing".

Price, Utah

June 23, 2006